

INTERNAL REVENUE SERVICE

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The Honorable Donald A. Manzullo  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Manzullo:

Commissioner Rossotti has asked me to respond to your inquiry dated August 7, 2000, on behalf of your constituent [REDACTED]. [REDACTED] asked for an increase in the business standard mileage rate, currently 32.5 cents a mile, because of increases in automobile costs. I hope you find the following information helpful.

**Gasoline Prices.** We realize increased gasoline prices are an economic burden. However, the cost of gasoline is only one part of the business standard mileage rate, which includes fixed and operating automobile costs. These costs include depreciation (or lease payments), maintenance and repairs, insurance, and license and registration fees, in addition to gasoline and oil. Less than one-third of the 32.5 cents per mile rate comes from the cost of gasoline and oil. Thus, an immediate adjustment in the rate taking into account the recent increase in gasoline prices might not be significant.

**Setting the Business Standard Mileage Rate.** The rate is a national average amount determined by an annual study performed by an independent contractor who is an expert in the cost analysis of business use of automobiles. The contractor uses recent data from each state on the component costs of operating the most popular automobiles. The contractor then combines this data to achieve a national composite cents-per-mile rate.

**Advantages of Using the Business Standard Mileage Rate.** Reducing a taxpayer's record-keeping burden is the principal advantage of using the rate. Gasoline prices rise and fall during the year, but taxpayers may continue to use the same rate without having to keep records of actual expenses. Although rising gasoline prices can be a disadvantage for taxpayers who use the rate, falling prices can work to their advantage. For example, although gasoline prices fell in 1998, for all of 1998 and through March 31, 1999, taxpayers were able to use the rate that reflected the earlier higher prices.

**Taxpayer's Options.** To deduct the ordinary and necessary expenses of using an automobile for business purposes, a taxpayer must substantiate the cost, date, place, and business purpose of each use of the automobile by adequate records. For the cost, the taxpayer has two options:

- Substantiate actual cost by keeping records (or by other sufficient evidence).
- Use the business standard mileage rate.

Using the rate gives approximate, not actual, costs. Taxpayers can deduct the actual business expenses of using a personally-owned automobile, and this may be advantageous when automobile costs are rising. Publication 463, Travel, Entertainment, Gift, and Car Expenses, contains further information on how taxpayers should substantiate expenses. I have enclosed the relevant pages from that publication.

On a final note, part of your constituent's concern stems from his incorrect assumption that the 32.5-cent rate is equivalent to 32.5 cents per gallon, from which he concludes the business standard mileage rate falls far short of his actual gasoline cost of \$2 per gallon. However, using his example of an automobile that gets 20 miles to the gallon and a gallon of gasoline that costs \$2, the per-mile gasoline cost would be 10 cents – an amount lower than the business standard mileage rate.

Please call Edwin B. Cleverdon, Identification Number 50-01366, at (202) 622-4920, if you have any questions.

Sincerely,

Associate Chief Counsel  
(Income Tax & Accounting)

By: \_\_\_\_\_  
Robert A. Berkovsky  
Chief, Branch 2

Enclosure